

EXHIBIT 2

CONFIDENTIAL

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

-----x

In re ANADARKO PETROLEUM Civil Action No.
CORPORATION SECURITIES 4:20-cv-00576
LITIGATION

-----x

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REMOTE VIDEOTAPED DEPOSITION BY VIRTUAL ZOOM OF
J. RICHARD DIETRICH
Saturday, March 11, 2023

Reported By: Lynne Ledanois, CSR 6811
Job No. 5780790

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1 that you have two assignments, one was to respond to 9:39AM
2 Mr. Regan and one was to offer opinions.

3 I didn't see any instance in which you did
4 not respond to Mr. Regan.

5 A This will take a few minutes. If you bear 9:40AM
6 with me, I'll try to identify some.

7 Are you asking specifically where I said
8 something like Anadarko's accounting was something,
9 where "Anadarko" has to be in the sentence?

10 Q No. What I'm asking is: You told me that 9:40AM
11 your assignment was twofold, as an independent
12 expert to provide your opinions regarding Anadarko's
13 accounting treatment for certain well costs and
14 period assessments of nonproducing leasehold
15 properties for impairment, particularly as applied 9:41AM
16 to Anadarko's deepwater Shenandoah exploration
17 project and to evaluate and respond to certain
18 financial accounting and reporting opinions
19 expressed by D. Paul Regan.

20 I'm asking you to show me instances where 9:41AM
21 you acted as an independent expert and did not
22 respond to Mr. Regan.

23 A Here is an example of what I think is
24 responsive to your question. On Page 42, there is a
25 heading that says, "Anadarko's Decision to Continue to 9:41AM

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1 Suspend the Shen 3 Well Costs was Consistent with 9:41AM
2 GAAP."

3 Q That was not in response to Mr. Regan; is
4 that correct?

5 A Well, it's a plain statement that says I'm 9:41AM
6 opining about Anadarko's decision irrespective of
7 Mr. Regan's statement.

8 Q I understand. Is it in response to
9 Mr. Regan or not?

10 A I'm sorry, I don't understand the 9:42AM
11 distinction you're asking me to draw.

12 Q I'm asking you distinguish between three
13 parts to your assignment in Paragraph 1.

14 I'm asking you to show me instances where
15 you're not responding to Mr. Regan but instead 9:42AM
16 offering your independent opinions as you state them
17 in your description of the assignment.

18 A As this example demonstrates, I made a plain
19 statement about Anadarko's decision to suspend the
20 Shen 3 well costs and that was irrespective of 9:42AM
21 anything that Mr. Regan said.

22 I understand that Mr. Regan made
23 statements about that, too, so one could look at
24 that and say it was in response.

25 But in response to Mr. Regan, I could have 9:43AM

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1 simply said, here's why Mr. Regan's opinion is 9:43AM
2 flawed.

3 I didn't do that here. I talked about
4 Anadarko's accounts.

5 So I believe I have done what I said in 9:43AM
6 Paragraph 1 that I would do based on this example.

7 Q Besides 7B to your report, which starts on
8 Page 42, is there any other instance where rather
9 than responding to Mr. Regan, you offer opinions as
10 an independent expert witness? 9:43AM

11 A Again, I don't have in mind -- well, if we
12 go back and look at 6 on Page 39, the heading that
13 says, "The Decision to Suspend the Costs Associated
14 with Shen 3 as of December 31st, 2014 Was Consistent
15 with a Reasonable Interpretation of ASC 932-360." 9:44AM

16 Again, it's related to the issues in the
17 matter that I address and it is not directly in
18 response to Mr. Regan.

19 In fact, I think if you look at
20 Paragraph 91, 92, 93, 94 I don't see, just in a 9:44AM
21 quick scan, Mr. Regan's name or the name of the
22 report mentioned at all in there.

23 Q Any other instances in which you acted as
24 an independent expert and did not respond to
25 Mr. Regan? 9:45AM

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1 Q That would be consistent with Part 2 of 9:51AM
2 your assignment; right?

3 A Correct.

4 Q Okay. I'm just asking you to tell me
5 which part is consistent with Part 1 of your 9:51AM
6 assignment.

7 A I believe I've done that.

8 Q Okay. And nothing else that's consistent
9 with Part 1 of your assignment; right, sir?

10 A I have not said that. Again, I would have 9:51AM
11 to carefully examine my entire document. I'm
12 perfectly prepared to do it, but it will take me
13 several minutes.

14 Q Why don't you take a look at your document
15 and tell me if there's anything other than 9:52AM
16 Section 5, Section 7A, Section 7B that is consistent
17 with the second part of your assignment or the first
18 part of your assignment, which is to offer your
19 independent opinions not in response to Mr. Regan.

20 A Let me do this in realtime. 9:52AM

21 On Page 84, I see another heading that
22 says, "Anadarko's Decision to Impair Shenandoah
23 Project Costs as of Q1 2017 Was Consistent with
24 GAAP."

25 And that goes on and explains why. 9:53AM

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1 Q 10A; is that correct? 9:53AM

2 A Yes, I believe that's 10A.

3 Q And that's consistent with Part 1 of your
4 assignment; correct?

5 A Correct. I distinguish that from B, which 9:53AM
6 is commenting on Mr. Regan's analysis.

7 Q What do you mean you distinguish it?

8 A You said that my assignment consists of two
9 parts. So 10A is the first part, my opinions
10 concerning Anadarko's accounting. 9:53AM

11 And 10B is the second part, my opinions
12 regarding Mr. Regan's analysis.

13 I believe there may be one other place in
14 here that I can recall that has to do with
15 materiality. 9:55AM

16 Let me try this another way.

17 Q Mr. Dietrich, I don't want to take up any
18 more time on the record. Let me just recap so that
19 I am sure that I understood you.

20 Part 1 of your assignment was to offer 9:56AM
21 your independent opinions not in response to
22 Mr. Regan and Part 2 of your assignment was to
23 respond to Mr. Regan; correct?

24 A Yes.

25 Q Okay. And you told me that Roman 9:56AM

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1 numeral 5 was consistent with Part 1 of your 9:56AM
2 assignment; correct?

3 A Yes.

4 Q And you told me that Roman numeral 7A was
5 consistent with Part 1 of your assignment; right? 9:56AM

6 A Yes.

7 Q Roman numeral 7B was consistent with
8 Part 1 of your assignment; right?

9 A Yes.

10 Q And Roman numeral 10A was consistent with 9:57AM
11 Part 1 of your assignment; correct?

12 A Yes.

13 What I'm not saying, to be clear, is that
14 is all of the places where I have offered opinions
15 regarding Anadarko's accounting because I haven't 9:57AM
16 had sufficient time to review the entire report.

17 Q I understand. Thank you.

18 Were there any matters you were asked not
19 to opine on?

20 A Not that I recall. 9:57AM

21 Q Did you have assistance in writing your
22 report?

23 A Yes.

24 Q Who assisted you?

25 A Primarily two individuals at Cornerstone 9:58AM

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1 Research, Steve McBride and Sally Bai. Perhaps a 9:58AM
2 sentence or two will help you understand how I do my
3 work.

4 This is very similar to work that I do as
5 a faculty member where I have research or teaching 9:58AM
6 assistants who help me as I'm preparing a research
7 paper, for example, or classroom materials or they
8 may help me -- I give them an assignment and say, go
9 on learn about this and write something up for me so
10 that I will be better informed about it. They do 9:58AM
11 that.

12 I then do it and decide what to do with
13 that, if I want to incorporate it in my report, if
14 so, how. I extensively edit everything that I
15 receive so that it's my words, not someone else's 9:59AM
16 words. So it's my report.

17 Q Did you write every word in your report?

18 A Again, I may not have written originally the
19 words, but all the words that are here are my words.

20 Q I understand that you've adopted some of 9:59AM
21 the information that you've received, but I'm asking
22 you if you wrote every word?

23 A Explain what you mean by "write."

24 Q If the word "Shen 3 well costs as of
25 December 31, 2014 was consistent with GAAP," did you 9:59AM

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1 accounting at the time at Carnegie. 10:17AM

2 And I did work with primarily one or two
3 faculty members during that period of time.

4 Q What did you write your doctoral
5 dissertation on? 10:17AM

6 A I should know that. I don't remember the
7 title of the dissertation any more. It was on the
8 debtor/creditor hypothesis and the effects of
9 inflation on evaluation was sort of one part of it.

10 There was a separate distinct part that 10:18AM
11 had do with exchanges of debt instruments.

12 The second half was a published work
13 that's listed on my C.V. The title of my
14 dissertation I'm not sure is listed on my C.V.

15 I don't see my dissertation title. 10:18AM

16 Q You obtained a Ph.D. in industrial
17 administration; is that right?

18 A Carnegie's business school at the time
19 offered degrees that were all in industrial
20 administration because the founder wanted it to be 10:19AM
21 known as industrial administration as opposed to
22 business.

23 Q What is industrial administration?

24 A What we think of today as business and, in
25 fact, Carnegie has changed the name of the business 10:19AM

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1 school. But at the time that it was founded, the idea 10:19AM
2 was that companies that were industrial corporations
3 needed managers to run them. And those people were
4 involved in industrial administration.

5 To the best of my knowledge, Perdue and 10:19AM
6 Carnegie were the only two schools ever to have a
7 master's in science in industrial administration
8 degree. Carnegie has since changed the title of its
9 degree to -- I think it's just an MBA.

10 Q If we looked at your transcript for the 10:20AM
11 Ph.D. program in industrial administration, would we
12 see any oil and gas courses on that?

13 A No.

14 Q If we looked at your transcript for your
15 master's in accounting degree, would we see any oil 10:20AM
16 and gas courses there?

17 A Not titled that. They would be called
18 independent study courses.

19 Q How many independent study courses did you
20 take? 10:20AM

21 A Probably more than half the courses I took
22 were independent study or similar titles where it
23 was -- I was the only student in the class as it were.
24 It was not a class. It was just a learning activity.

25 Q And would your transcript reflect the 10:20AM

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1 content of the independent studies or would it 10:20AM
2 simply say "independent study"?

3 A It would not reflect the content certainly.
4 I'm not sure if the title of the course would be
5 "independent study" or something similar to that that 10:21AM
6 would have that meaning.

7 Q I understand that you've been employed by
8 Ohio State University; right?

9 A Yes.

10 Q And you taught there; is that correct? 10:21AM

11 A Yes.

12 Q Taught any oil and gas accounting courses
13 while you were at Ohio State?

14 A I did not teach a separate course in oil and
15 gas accounting, no. 10:21AM

16 Q Did you teach any oil and gas courses
17 while you were at the University of Illinois
18 Urbana-Champaign?

19 A No.

20 Q Have you taught any oil and gas classes at 10:21AM
21 the University of Texas?

22 A I don't believe so, no.

23 Q Did you teach any oil and gas courses at
24 the University of Chicago?

25 A No. 10:22AM

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1 A No. I would describe it as being broadly 10:44AM
2 read, sir.

3 Q Your Ph.D. was in business; right?

4 A You've already read C.V., it says my Ph.D is
5 in industrial administration. 10:44AM

6 Q It was not in accounting; correct?

7 A It had a concentration in accounting.

8 Q You retired from university research and
9 teaching in 2020; is that right?

10 A I believe that's right, yes. 10:44AM

11 Q When in 2020?

12 A Well, I retired officially I think in June
13 of 2020. My last official day was May 21st of 2020.
14 But I was on leave of absence during the spring
15 semester, so at some point in 2019 was my last date of 10:45AM
16 paid work for Ohio State.

17 Q Are you a certified public accountant?

18 A No.

19 Q Have you ever been a CPA?

20 A No. 10:45AM

21 Q So I take it you've never sat for the CPA
22 exam; is that right?

23 A That's correct.

24 Q Are you a member of the AICPA?

25 A Yes. 10:45AM

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1 Q How long have you been a member of the 10:45AM
2 AICPA?

3 A Six years or so.

4 Q When did you become a member?

5 A Bear with me for a minute. I can estimate 10:46AM
6 that.

7 I became a member of the financial
8 reporting executive committee of the AICPA in
9 September 2015. I believe I would have joined the
10 AICPA around the time that I joined that committee. 10:46AM

11 I was not required to do so, but I found
12 out that as a non-CPA but because I was an academic,
13 I was permitted to join the AICPA. I had not done
14 that before that.

15 Q Are you a member today of the AICPA? 10:47AM

16 A I am.

17 Q Do you pay dues?

18 A Yes.

19 Q Do you know what a CFF is?

20 A Not specifically. 10:47AM

21 Q Do you know generally what a CFF is?

22 A I believe it has to do with fraud
23 examination. The reason I'm pausing is the AICPA has
24 an -- has a certification, but there is another
25 organization, it's the -- what is it called? It's 10:47AM

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1 fraud examiners. 10:47AM

2 And so there is a CFE title as well.

3 There is a number of titles. I don't recall all the

4 titles that are available to people who are

5 accountants. 10:48AM

6 Q I take it you're not a CFF; right?

7 A That's correct.

8 Q And you mentioned a CFA designation as

9 well; correct?

10 A CFE. 10:48AM

11 Q I'm sorry, CFE?

12 A Right. Interestingly, I have taught the

13 course at Ohio State for students who want to take the

14 CFE examination. But I've never taken it myself.

15 Q I take it that you're not a CFE; is that 10:48AM

16 right?

17 A That's correct.

18 Q Have you ever been employed as an

19 independent auditor?

20 A No. 10:48AM

21 Q So I take it you've never planned an audit

22 of any public company; correct?

23 A That's correct.

24 Q You've never performed an audit for any

25 public company; right? 10:48AM

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1 A That's correct. 10:49AM

2 Q You've never tested internal controls as
3 part of an audit for a public company; right?

4 A Not as part of an audit, no.

5 Q You've never interviewed employees as part 10:49AM
6 of an audit of a public company; right?

7 A That's correct.

8 Q You've never prepared audit work papers;
9 right?

10 A That's correct. 10:49AM

11 Q You've never audited -- sorry. You've
12 never edited audit work papers as part of an audit;
13 right?

14 A Not as part of an audit, no.

15 Q You've never signed an audit opinion; 10:49AM
16 correct?

17 A Right.

18 Q You mentioned that you were on the
19 Standing Advisory Group of the PCAOB; is that right?

20 A Yes. 10:49AM

21 Q That was an advisory position; right?

22 A Yes.

23 Q The job of the standing group was to make
24 recommendations to the PCAOB; right?

25 A I briefly described in my report the role of 10:50AM

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1 finding oil, because of the information it provided 2:01PM
2 helped Anadarko define 'where the reservoir isn't as
3 much as where it is' and gave Anadarko 'more clarity
4 on the numbers that we should be working with [i.e.,
5 the estimated quantities of recoverable resources in 2:01PM
6 the field]."

7 Do you see that?

8 A Yes.

9 Q And you cited the portion where Mr. Camden
10 believed that Shen 3 was always a successful 2:02PM
11 appraisal well; right?

12 A I quoted that, yes.

13 Q The portion about "always considered a
14 successful appraisal well" isn't in quotes; right?

15 A Yes, it's not. I don't know exactly why. 2:02PM
16 You know, I would have to go back and look at his
17 deposition testimony and see if that was just
18 paraphrasing what he said.

19 Q Why is that relevant?

20 A It's not. 2:02PM

21 Q Why did you write it then?

22 A Again, in -- parts of my report are simply
23 trying to explain what I understand about facts and
24 circumstances before I apply accounting analysis to
25 them. 2:03PM

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1 Q But you told me that this was -- that this 2:03PM
2 considering Shen 3 to be a successful appraisal well
3 is an irrelevant fact; right?

4 A Correct. Now --

5 Q Did you conclude -- 2:03PM

6 A I'm sorry, let me be clear. When I was
7 developing my report, I had not made determinations
8 yet on the accounting. And so I didn't know when I
9 was writing parts of the report what may or may not be
10 important in making an accounting determinations. 2:03PM

11 So what you're seeing here is the work
12 product by which I came to understand the facts and
13 circumstances that were applicable to my accounting
14 judgments on Anadarko's accounting for its -- its
15 wells. 2:04PM

16 Q Before submitting your report, why didn't
17 you go back and edit out the irrelevant portions of
18 your report?

19 A I just didn't.

20 Q So some portions of this report just 2:04PM
21 include irrelevant facts; is that right?

22 A Well, they may or may not be relevant to
23 readers of my report as, again, I've testified to
24 today, there's lots of discussion that I have seen in
25 the record about successful or unsuccessful views to 2:04PM

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1 describe the success of a well. 2:04PM

2 And as a matter of accounting, the word
3 "successful" or "unsuccessful" is not used in
4 932-360.

5 Q Paragraph 95 -- by the way, is Chris 2:05PM
6 Camden an accountant at Anadarko?

7 A I don't believe so.

8 Q Is he a financial reporting person at
9 Anadarko?

10 A I don't believe so. 2:05PM

11 Q Does that matter?

12 A Well, it matters for knowing what the facts
13 and circumstances are about which he does have
14 knowledge.

15 But as far as the accounting 2:05PM
16 determinations, it does not.

17 Q Then go ahead and take a look at your
18 Paragraph 95.

19 You write, "As a result, in my opinion,
20 Anadarko's decision to suspend the Shen 3 well costs 2:05PM
21 as of December 31, 2014 was reasonable and
22 consistent with GAAP (specifically ASC 932-360),
23 because the information from the Shen 3 appraisal
24 well enabled Anadarko to both better estimate the
25 size of the Shenandoah reservoir and reduce the 2:06PM

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1 Q Is your opinion that Shen 3 could suspend 2:09PM
2 the well costs for Shenandoah 3 as of December 31,
3 2014 take into account whether Shen 3 reduced the
4 uncertainty of the quantity of recoverable
5 resources? 2:09PM

6 A That did not affect my judgment and my
7 determination of Shen 3 -- of the accounting for
8 Shen 3.

9 Q What is the basis for your determination
10 that as of December 31, 2014, Anadarko could suspend 2:09PM
11 the Shen 3 well costs?

12 A Again, there are several portions of 932-360
13 that are relevant here. But I'll mention one in
14 particular and that's 932-360-35-18 that says, I
15 believe in that paragraph specifically, if there are 2:10PM
16 multiple appraisal wells that are drilled, that they
17 can be considered as a group when making a
18 determination about -- pending the determination of
19 whether proved reserves are found.

20 So it's 35-18, not 25-18 that Mr. Regan 2:10PM
21 points to.

22 Q So I guess my question is: What is the
23 factual basis for your determination that as of
24 December 31, 2014, Anadarko could suspend the Shen 3
25 well costs? 2:11PM

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1 A Well, Shen 1 discovered oil and GAAP says 2:11PM
2 that once you discover oil, you can suspend additional
3 drilling costs pending a determination of whether
4 proved reserves are found.

5 At December 31st, 2014, Anadarko had not 2:11PM
6 reached a conclusion about whether proved reserves
7 were found, so it was left in a position of saying
8 that GAAP provides that drilling costs can continue
9 to be suspended.

10 Q Any other factual basis for your 2:11PM
11 determination that as of December 31, 2014, Anadarko
12 could suspend the Shenandoah 3 well costs?

13 A There's additional considerations that would
14 be considered potentially like are you continuing to
15 make progress in the well. So sufficient progress 2:12PM
16 conditions, things like that. We can go into if you
17 would like to.

18 Q No, I'm just asking you to provide me with
19 all of the factual bases for your determination that
20 Shen 3 could suspend the well costs -- that Anadarko 2:12PM
21 could suspend the Shen 3 well costs as of
22 December 31, 2014.

23 And you told me about sufficient progress
24 being made and about multiple appraisal wells that
25 are drilled with the discovery of oil in at least 2:12PM

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1 one of them. 2:12PM

2 Any others?

3 A Let me refer back to my report for a minute
4 so I can be clear on this.

5 So I'm looking at Paragraph 90, if you 2:13PM
6 want to follow along as well.

7 Q I'm asking a question, sir.

8 A Hang on, I'll answer your question. I want
9 you to know what I'm looking at to assist me in
10 answering. 2:13PM

11 So I mentioned the sufficient quantity
12 criterion. And then --

13 Q Do you mean the sufficient progress
14 criteria?

15 A There's two, sufficient progress and a 2:13PM
16 sufficient quantity criteria.

17 Q Okay. So those are the two criteria
18 you've mentioned so far.

19 Any other factual bases that you took into
20 account when determining Anadarko could suspend 2:13PM
21 Shen 3 well costs as of December 31, 2014?

22 A There's one other criterion that is
23 mentioned at I think in 35-13, 14, somewhere in there,
24 which, you know, I can search through my document and
25 find it. But what I'm telling you is that there are 2:14PM

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1 THE VIDEOGRAPHER: We're on the record at 2:29PM
2 2:29 p.m. This is the beginning of Media 5 in the
3 deposition of Dr. J. Richard Dietrich.

4 MR. DROSMAN: I'm going to show you what
5 we'll mark as Plaintiffs' Exhibit 551 for 2:29PM
6 identification. This is Tab 32.

7 (Whereupon, Exhibit 551 was marked for
8 identification.)

9 BY MR. DROSMAN:

10 Q Let me know when you have it before you. 2:30PM

11 A I just refreshed. What tab number was it
12 again, please?

13 Q Tab 32.

14 A I'm not seeing a Tab 32.

15 Q Maybe you can look for Exhibit 551. 2:30PM

16 A Oh, yes, I see it. Sorry. Thank you.

17 Q Sure. You know what this is; right?

18 A Yes.

19 Q This would be 932-360-25 and 932-360-35;
20 right? 2:30PM

21 A Yes.

22 Q And you mentioned to me that your
23 determination that Anadarko could suspend Shen 3
24 well costs as of December 31, 2014 was based on your
25 reading of 932-360-35-18; correct? 2:31PM

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1 A Well, there's several parts of it. The 2:31PM
2 first one that I will refer you to is 932-360-25-9.

3 And if you look at D and E in that
4 paragraph, you see D, "Costs of drilling and
5 equipping exploratory wells," and then E, "Costs of 2:31PM
6 drilling exploratory-type stratigraphic test wells."

7 And the instruction at the beginning of
8 that paragraph is "All of the following are
9 principal types of exploration costs, which include
10 depreciation and applicable operating costs of 2:32PM
11 support equipment and facilities and other costs of
12 exploration activities."

13 So this paragraph sets out that D and E
14 are exploratory costs.

15 If you look at E, you'll see why there's 2:32PM
16 confusion about how to interpret 25-18 in
17 particular. It says, "While the costs of drilling
18 stratigraphic test wells are sometimes considered to
19 be a geological and geophysical costs, they are
20 accounted for separately under this subtopic for 2:32PM
21 reasons explained in 25-17 through 25-18."

22 So that's explaining what the purposes of
23 25-17 and 25-18 are.

24 It was explaining why and there is a long
25 story that goes behind that that I find interesting 2:32PM

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1 but almost nobody else does. I will be glad to 2:32PM
2 explain it if you like.

3 So when we then go down to the next
4 paragraph, 932-360-25-10, "The costs of drilling
5 exploratory wells and the cost of drilling 2:33PM
6 exploratory-type stratigraphic test wells shall be
7 capitalized as part of the entity's uncompleted
8 wells, equipment and facilities pending
9 determination of whether the well has found proved
10 reserves." 2:33PM

11 Now, that language where it says "the
12 well" and it also says "wells" is internally
13 inconsistent. So somebody has to make a judgment
14 about whether it says, the well has found proved
15 reserves. 2:33PM

16 Here's why a reasonable interpretation
17 would not say that a well individually must find
18 proved reserves. That's because when Shen 1 was
19 drilled, it found reserves, but it did not find
20 proved reserves. 2:33PM

21 So if you believe "the well" means the
22 individual well, and we'll talk more about this
23 later, then you would say that every well that's
24 drilled in deepwater that does not individually
25 identify proved reserves would have to be expensed. 2:34PM

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1 That is not a reasonable interpretation of 25-10 in 2:34PM
2 my opinion.

3 Q Why --

4 A Now -- I'm sorry, go ahead.

5 Q Let me stop you there. 2:34PM

6 Why is that not a reasonable
7 interpretation that every well that did not find
8 proved reserves should be expensed?

9 A Well, let me go on and explain why below.
10 Because, again, this is the initial recognition 2:34PM
11 section. So what we need to do now is look at
12 932-360-35.

13 Q Before we get there --

14 A I'm sorry.

15 MS. PHILLIPS: Dan, he's not done 2:34PM
16 responding to your question. If you could let him
17 finish.

18 THE WITNESS: That's okay.

19 BY MR. DROSMAN:

20 Q I want to make sure we are on the same 2:34PM
21 page. And maybe you're right.

22 Can you just tell me before you go to
23 another provision, you said that it would not be a
24 reasonable opinion that each well that did not find
25 proved reserves should be expensed. I'm just asking 2:35PM

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1 you why? 2:35PM

2 A If that were the case, every well that's
3 drilled in an appraisal setting would result in
4 expensing of all of them and that would be consistent
5 with those costs being deemed G&G costs which are 2:35PM
6 expensed as described somewhere here in what I just
7 read.

8 But I apologize, this is going to take us
9 back to the history.

10 When FAS 19 was written, G&G costs were 2:35PM
11 always expensed and there was a proposal to expense
12 all stratigraphic test wells.

13 And before final adoption, the board
14 determined that stratigraphic test wells would be
15 suspended and not expensed immediately. 2:36PM

16 So that's what Paragraph 25-17 and 25-18
17 are trying to explain. In FAS 19, they were in the
18 basis for conclusions I believe as Paragraphs 200
19 and 201.

20 They were brought into the codification 2:36PM
21 when it was created to help the reader understand
22 what stratigraphic test wells were because they
23 would no longer refer to the basis for conclusions
24 in FAS 19.

25 To be clear, FAS 19 basis for conclusions 2:36PM

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1 A Yes. 2:42PM

2 Q Then "the capitalized drilling costs shall
3 continue to be capitalized if the well has found a
4 sufficient quantity of reserves to justify its
5 completion as a producing well." 2:42PM

6 Do you see that?

7 A Yes.

8 Q Did Shen 3 find a sufficient quantity of
9 reserves to justify its completion as a producing
10 well? 2:42PM

11 A Not by itself, no.

12 Q Did Shen 1?

13 A I don't know the answer to that.

14 Q What did you do to find that out?

15 A I did not opine on the accounting for 2:42PM
16 Shen 1.

17 Q You told me that Shen 1 was the reason --
18 the oil reserves in Shen 1 was the reason that
19 Shen 3 was permissible to capitalize; right?

20 A Yes. 2:43PM

21 Q So what did you do to find out whether
22 Shen 1 had found a sufficient quantity of reserves
23 to justify its completion as a producing well?

24 A Again, you're not understanding it the way I
25 understand it. Because in my evaluation of Shen 3, 2:43PM

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1 I'm not offering an opinion about Shen 1, although I 2:43PM
2 think anyone and everyone would agree that Shen 1 was
3 properly suspended who's an accounting expert.

4 There's never been a question about that
5 and I didn't offer an opinion about that. 2:43PM

6 But Shen 1 did not find proved reserves,
7 but it met the criterion here that I've described in
8 the last sentence that said when you're evaluating
9 the wells, you can evaluate them not individually
10 but you can evaluate them in combination if they are 2:44PM
11 intended to be extracted in a single integrated
12 production operation.

13 So what that says is it does not matter
14 whether there's oil in a particular wellbore in an
15 appraisal well. 2:44PM

16 Q Okay. I think I understood that.

17 What I'm asking is we're talking about
18 whether Shen 1 justified the continued
19 capitalization of Shen 3 well costs; right? That's
20 what I'm asking you about. 2:44PM

21 So as part of that question, I'm asking
22 you -- it says in those cases where oil and gas was
23 found but not proved reserves, the capitalized
24 drilling costs shall continue to be capitalized
25 if -- you see the word "if" -- if the well has found 2:45PM

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1 a sufficient quantity of reserves to justify its 2:45PM
2 completion as a producing well.

3 I'm asking: What did you do to determine
4 whether Shen 1 found a sufficient quantity of
5 reserves to justify its completion as a producing 2:45PM
6 well?

7 A Well, I did several things. One, and I
8 apologize, I don't remember the document number. But
9 as the appraisal wells were drilled, Anadarko revised
10 its estimates of reserves in the reservoir and we can 2:45PM
11 see over time what those reserves were.

12 I did not specifically see the analysis,
13 but I performed my own analysis that said based on
14 that much oil in the reservoir, what would be the
15 expected amounts that Anadarko would receiver, would 2:46PM
16 that be enough to justify completion of the well.

17 So I did that analysis informally in my
18 mind. I did not see it done formally.

19 But again, I haven't seen every document
20 that Anadarko has. I don't know whether they 2:46PM
21 performed that analysis or not, but I presume that
22 they did and simply accepted that they had made that
23 determination.

24 So I didn't have to separately
25 independently form that determination. 2:46PM

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1 Q Sir, you said you performed that analysis 2:46PM
2 in your head. Did I hear that correctly?

3 A Yes.

4 Q Does that head performed analysis appear
5 anywhere in the report? 2:47PM

6 A No.

7 Q Okay. Do you intend to opine on that at
8 trial?

9 A Do I intend to, no. If I'm asked about it,
10 I may. 2:47PM

11 Q And you told me you don't know whether
12 Anadarko performed the analysis to determine whether
13 Shen 1 had a sufficient quantity of reserves to
14 justify its completion of a producing well but you
15 assume they did; right, sir? 2:47PM

16 A Yes, for multiple reasons I determined that
17 that was a reasonable assumption to make and I made
18 the assumption.

19 Q Did you ask for documents to determine
20 whether they existed? 2:47PM

21 A No. I wasn't focused on that. The issue
22 here seems to be on Shen 3 because it did not find oil
23 in the wellbore and so the question is: Can Shen 3 be
24 suspended even if it did not find reserves in the
25 wellbore? 2:48PM

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1 Q Let's go back to your head-performed 2:48PM
2 analysis. Tell me what that analysis consisted of,
3 the one you performed in your head.

4 A There's two parts of it, right. The first
5 part is what are the costs to complete a well. I've 2:48PM
6 looked at what that is. It appears to be relatively
7 less of -- a relatively lower amount than drilling the
8 well itself.

9 My understanding is what you have to do is
10 to push something into the well that creates a lot 2:48PM
11 of openings so that the oil can flow into the well.

12 There is a cost associated with that that
13 I understand is called completing the well.

14 In addition to that, there are many other
15 costs in figuring out how to get the oil from the 2:49PM
16 well over to land.

17 The way I interpret 35-18 is not
18 completing the well, so it's a relatively small cost
19 that one would incur. Then the question is: How
20 much oil is the estimate that's in the reservoir? 2:49PM

21 And those estimates are changing as they
22 drill wells and as they refine their analysis.

23 So then we look at how much oil there is
24 and say, okay, how much value do I estimate that
25 they would get. 2:49PM

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1 Those are things that are sometimes 2:49PM
2 referred to as PIRs. And so you can look at PIRs
3 over time, you can look at the barrels of oil that
4 they've estimated over time and try to determine
5 what that would turn into as a dollar measure and 2:49PM
6 whether that would justify completion of the well.

7 So that's how I did it in my head. I
8 assume that Anadarko similarly did that in its
9 analysis that I did not see. And I determined that
10 KPMG would have looked for that in its audit work 2:50PM
11 that I did not review.

12 So I assume for multiple reasons that
13 there was a basis for that and I note that Mr. Regan
14 did not challenge any of that in his report.

15 So I did not focus on that. 2:50PM

16 Q Sir, I'm asking you about this analysis.

17 You told me that the various factors you
18 would use -- let's assign some dollar amounts. The
19 cost to compete the well, what was that?

20 A Let's call it 10 million. 2:50PM

21 Q Is that what it was?

22 A They didn't complete the well.

23 Q You told me that you thought about the
24 cost to complete the well, that was one of the
25 factors that you used in this head analysis? 2:50PM

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1 A Yes. 2:50PM

2 Q What was the cost to complete Shen 1?

3 A No, no, no. Completing the well is after
4 you finish the well itself. That's already been done.

5 So now if you want to make it so that you 2:51PM

6 can actually use it to produce oil, you have to go

7 through the development phase and that means that

8 you have to go back into the wellbore and you now

9 have to make perforations in the wellbore itself

10 that will allow oil to leak or to move into the 2:51PM

11 wellbore so that it can be extracted.

12 That's the cost of completing a well as I

13 understand it.

14 Q How much was that for Shen 1?

15 A It was never done for Shen 1. 2:51PM

16 Q I understand. How much was that

17 estimated? You told me you performed this analysis.

18 A I estimated it would cost \$10 million.

19 Q What was that based on?

20 A It was based on my reading of the cost of 2:51PM

21 completing wells and other materials that I was

22 reading.

23 I was trying to understand what the next

24 step in the process would be once it went over to

25 development, not because it affected the accounting 2:52PM

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1 determinations I was making directly, but it did 2:52PM
2 have an ancillary effect as you've identified.

3 Q So to complete the well for development,
4 you estimated it would cost \$10 million; right?

5 A Yes. 2:52PM

6 Q You also mentioned that there are many
7 other costs; right?

8 A That are unrelated to this text but were
9 questions that Anadarko personnel would consider in
10 determining whether they were going to make a final 2:52PM
11 investment decision in this reservoir.

12 Q And you mentioned that you calculated a
13 PIR; is that right?

14 A I didn't calculate a PIR, they were -- I
15 read documents that had PIRs calculated, yes. 2:52PM

16 Q What was the PIR for completing Shen 1 as
17 a development well?

18 A I don't believe any of the PIRs that I read
19 were based on completing one well. They were based on
20 the field itself. 2:53PM

21 Q So do you know whether there were
22 sufficient reserves in Shen 1 to justify its
23 completion as a producing well?

24 A I based my accounting conclusions on a
25 determination there was sufficient reserves. 2:53PM

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1 Q Is that an assumption, sir? 2:53PM

2 A Yes, but it's a reasonable assumption, I
3 believe, based on Anadarko's actual accounting, again,
4 the accounting for its partners, all of them would
5 have depended on that same determination and I believe 2:54PM
6 that those determinations were made. I just didn't
7 see the documentation directly that said, here's the
8 analysis that demonstrates that.

9 MR. DROSMAN: Move to strike as
10 nonresponsive everything after "yes." 2:54PM

11 Q Okay.

12 A You don't like my answer.

13 Q I had asked you, sir: Is that an
14 assumption?

15 I did not ask you whether it was a 2:54PM
16 reasonable assumption or why you made the
17 assumption. You answered that question with the
18 word "yes."

19 I didn't need any other elaboration, sir.
20 If I want it, I'll ask for it. 2:54PM

21 Do you understand that?

22 A I'll offer it if I choose to do so and you
23 can strike it.

24 Q We were talking about how 932-360-35-18
25 justified the decision by Anadarko to continue 2:55PM

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1 suspending the costs of the Shen 3 well. Is there 2:55PM
2 anything more you wanted to tell me about that?

3 A Not inside 18, no, but there are several
4 other areas. Let's see.

5 There is -- there's discussion earlier in 2:55PM
6 35 about accounting for a field as opposed to an
7 individual well. And...

8 In 932-360-35-16, as specified in
9 paragraph 932-360-25-10 that we spoke about a few
10 minutes ago, the cost of drilling an exploratory 2:57PM
11 well or an exploratory-type stratigraphic test well
12 shall be capitalized as part of the entity's
13 uncompleted wells, equipment and facilities pending
14 the determination of whether the well has found
15 proved reserves. 2:57PM

16 Again, in context here what we're talking
17 about stratigraphic test wells, that can reasonably
18 be interpreted to mean the group of wells as
19 described -- as we discussed earlier in 18.

20 Q Is "well" plural or singular in 2:58PM
21 932-360-35-16?

22 A It's singular in the way it's written. But
23 again, much of this was written -- if you look here in
24 16, it was originally written in FAS 19, which was
25 published in 1997, or adopted in 1977 when there was 2:58PM

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1 as yet very little drilling going on in deepwater Gulf 2:58PM
2 of Mexico.

3 So what I think was generally considered
4 in developing this guidance was based on the then
5 typical onshore drilling but there is language to 2:58PM
6 indicate if there are multiple appraisal wells or
7 stratigraphic test wells, that they are to be
8 accounted for jointly or can be accounted for
9 jointly if the intention is to produce the oil in an
10 integrated fashion from that field. 2:59PM

11 Q You're referring for 932-360-35-18;
12 correct?

13 A That's one place. There's another place
14 here that I'm looking for where it refers to a field.

15 And I don't know why I'm having 2:59PM
16 difficulty. Let me point out, the version of GAAP
17 that you put up version I recognize it, it is not
18 the version that I normally read. And so the
19 brackets and the sources are not the way I normally
20 read it. That's why I'm having a little bit of 3:00PM
21 trouble navigating this.

22 Q The brackets are the sources for the
23 specific provision; right, sir?

24 A Yes, this is GAAP, there is no question
25 about it. I'm just looking at it and there is a 3:00PM

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1 reference here to a field as a basis for accounting 3:00PM
2 and I'm just having trouble finding where the word
3 "field" appears in 35.

4 Q Maybe you can look later. I would like to
5 ask you about 932-360-35-16. 3:00PM

6 A Sixteen, okay.

7 Q So just so I'm clear that we're on the
8 same page, when it says "the costs of drilling an
9 exploratory well or an exploratory-type
10 stratigraphic well shall be capitalized pending the 3:01PM
11 determination of whether the well has found proved
12 reserves," are you suggesting that the singular
13 "well" in 932-360-35-16 should be changed to the
14 plural "wells"?

15 A Yes. Well, it can be changed to the plural 3:01PM
16 "wells" because if you drill an individual well and
17 cannot find proved reserved in that well, then the
18 answer is you would expense it, if you had that
19 interpretation.

20 So what I'm saying is that's not a 3:01PM
21 reasonable interpretation on a well-by-well basis or
22 you would never -- nothing in the Shenandoah field
23 would have been capitalized, even if they had found
24 proved reserves except for perhaps the last well in
25 the field. 3:02PM

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1 Q And then you cited to -- part of your 3:02PM
2 interpretation is based on the last sentence of
3 932-360-35-18 that reads, "For purposes of
4 determining whether capitalized drilling costs shall
5 continue to be capitalized pending the determination 3:02PM
6 of proved reserves, a project may include more than
7 one exploratory well or exploratory-type
8 stratigraphic well if the reserves are intended to
9 be extracted in a single integrated producing option
10 (for example, the producing wells will operate with 3:02PM
11 shared infrastructure)." Right?

12 A Yes.

13 Q Was Shenandoah 3 part of a -- intended to
14 be extracted in a single integrated producing
15 operation? 3:03PM

16 A Well, the reserves that it's describing here
17 are the oil in the reservoir that they find from their
18 exploratory activities.

19 Based on the oil in the reservoir, they
20 intend to extract that in a single integrated 3:03PM
21 producing operation.

22 So therefore, that reservoir or reservoirs
23 in the field would meet the qualifications as
24 described in that sentence in my opinion.

25 Q Can you describe the single integrated 3:03PM

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1 they going to do that on a well-by-well basis or are 3:08PM
2 they going to aggregate the oil from the field into
3 one large distribution channel and send it back that
4 way?

5 Q Thank you very much, Mr. Dietrich, the 3:09PM
6 young accounting student says, but is that the only
7 thing I should look at?

8 A I think that will give you a good start.

9 Q Anything else I should consider when I'm
10 making this determination, Mr. Dietrich? 3:09PM

11 A Well, you could speak to the production
12 engineers at the facility whose accounting you're
13 trying to understand and find out what they are doing
14 and what they say for how they're going to get the oil
15 from this field to some distribution point. 3:09PM

16 Q Do I just ask the production engineers, is
17 it a single integrated production operation, and if
18 they say yes, I should apply this particular
19 standard? Is that you how I should do it?

20 A You could review what you mean by a single 3:09PM
21 integrated production method or you could look about
22 methods to produce oil once you've finished the
23 development process and how you move it someplace.

24 So that's how to do it, right, you have to
25 understand what they mean. This is now talking 3:10PM

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1 about an industrial activity that you're trying to 3:10PM
2 understand as an accountant.

3 Q I'm asking you for the criteria. So you
4 told me one of the criteria is how they intend to
5 get it from the offshore to the mainland and whether 3:10PM
6 they intend to use the same apparatus or separate
7 apparatuses; correct?

8 A That's it.

9 Q Is there any other criteria?

10 A That's what we mean by "single integrated 3:10PM
11 production operation."

12 Q Let's return to 932-360-35-16. I asked
13 you whether you were suggesting that the word
14 "well," which appears three times in that particular
15 provision, should be changed to "wells" plural. And 3:11PM
16 you told me yes.

17 Do you remember that testimony?

18 A Go back to 25-10 and you'll see the word
19 "well" -- "wells" plural and "well" singular in the
20 same sentence, yes. 3:11PM

21 Q So my question about 932-360-35-16 is:
22 Are you suggesting that well "singular" which
23 appears three times should be changed to "wells"
24 plural?

25 I'm not asking why. I'm just asking 3:11PM

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1 whether. Can you answer that question? 3:11PM

2 A I'm saying that when you're interpreting as
3 an accountant the guidance in 932, you have to make a
4 judgment of whether you think that in context, given
5 the facts and circumstances, that word should be 3:11PM
6 "wells" instead of "well."

7 And if you take the entirety of 932-360, I
8 think you can reasonably conclude that you can use
9 the interpretation as plural.

10 Q You would concede that 932-360-25 and 35 3:12PM
11 is authoritative GAAP; right?

12 A Yes.

13 Q You're changing the authoritative
14 literature for the purposes of criticizing
15 Mr. Regan's report, aren't you, sir? 3:12PM

16 A No.

17 Q Let me ask you this: Are you aware of any
18 other authority that agrees with your interpretation
19 that the word "well" in 932-360-25 and 35 should be
20 changed to the plural "wells"? 3:12PM

21 A As I say, in 25-10, they use the word
22 "wells" and "well" in the same sentence. Based on
23 that, I infer that in the writing of these words, they
24 tended to think in singular terms because at the time
25 that was consistent with oil and gas producing 3:13PM

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1 activities. 3:13PM

2 Subsequently, this notion of stratigraphic
3 test wells or appraisal wells, which are not defined
4 in GAAP, became more prevalent in oil and gas
5 exploration, especially in deepwater like the Gulf 3:13PM
6 of Mexico.

7 And so accountants would reasonably
8 interpret the language that's there. It is expected
9 that accounting professionals will interpret the
10 guidance -- these are not accounting rules. This is 3:13PM
11 guidance in generally accepted accounting
12 principles.

13 Q Are you aware --

14 A So -- sorry, so it's perfectly appropriate
15 for accountants to make those determinations as I 3:14PM
16 described in my report that they must make judgments.

17 Q Just listen closely to my question because
18 I think you didn't quite answer it.

19 My question is: Are you aware of any
20 other person who has interpreted 932-360-25 and 35, 3:14PM
21 have singular "well" changed to plural "wells"? Any
22 other person you know who's done that?

23 A I know by inference others who have done it.

24 Q Who else has done that, sir?

25 A Well, for example, Mr. Zajac, the KPMG 3:14PM

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1 I think other accounting professionals could look to 3:16PM
2 to reasonably conclude that when one is looking at
3 accounting for multiple appraisal wells, that it is
4 consistent with the guidance in GAAP to consider
5 them collectively if the intention is to have them 3:16PM
6 be aggregated for purposes of producing oil from the
7 field.

8 Q So I'm not asking you about 932-360-25 and
9 what in there justifies -- you purport to justify in
10 your interpretation. I'm asking you whether any 3:17PM
11 individual you're aware of shares that
12 interpretation?

13 A I'm not aware of any individual who has a
14 different interpretation either.

15 Q I didn't ask that. 3:17PM

16 I asked: Are you aware of a single person
17 who shares the interpretation that "wells" singular
18 should be "well" plural in 932-360-25, 35?

19 A I am not directly aware of any other
20 individual's interpretation of 932 at all. 3:17PM

21 Q So I take it that you're not aware of any
22 other person who shares your interpretation that
23 "well" singular should be changed to "well" plural
24 in 932-360-25 and 35; is that accurate, sir?

25 MS. PHILLIPS: Asked and answered. 3:18PM

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1 BY MR. DROSMAN: 3:18PM

2 Q Please answer the question.

3 MS. PHILLIPS: You can respond.

4 THE WITNESS: I know I can. And I already

5 have. 3:18PM

6 BY MR. DROSMAN:

7 Q Are you refusing to answer the question,

8 sir?

9 A I've answered the question, sir.

10 Q You have not. Let me ask it again. 3:18PM

11 So I take it that you're not aware of any

12 other person who shares your interpretation that

13 "well" singular should be changed to "well" plural

14 in 932-360-25 and 35? Is that correct or incorrect,

15 sir? 3:18PM

16 A Well, as I say, in 932 itself, the words

17 singular and plural "well" or "wells" appear in the

18 same sentence apparently with respect to exactly the

19 same concept. That's what 932-360-25-10 says.

20 Am I aware of any individual that has an 3:18PM

21 opinion about that, no, that they are confronted

22 with that when they read 932-360-25-10 and must make

23 that decision.

24 Q Has the interpretation that "well"

25 singular should be changed to "wells" plural in 3:19PM

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1 932-360-25 and 35 ever appeared in any publication 3:19PM
2 that you're aware of?

3 A Not that I am aware of.

4 Q Has the interpretation that "well"
5 singular should be changed to "wells" plural in 3:19PM
6 ASC 932-360-25 and 35 ever been used by an auditor
7 that you're aware of?

8 A Not that I am aware of, except, as I
9 mentioned before, Mr. Zajac's testimony.

10 Q He did not testify that "wells" plural was 3:20PM
11 the correct interpretation, did he?

12 A Well, one can only interpret his statement
13 using my interpretation of GAAP in my opinion.

14 Q You concluded that it was permissible for
15 Anadarko to suspend the Shen 3 well costs as of the 3:20PM
16 conclusion of the drilling because reserves had been
17 found in Shen 1; is that fair?

18 MS. PHILLIPS: Objection, misstates the
19 testimony.

20 THE WITNESS: Yes. 3:20PM

21 BY MR. DROSMAN:

22 Q Under that logic, the conditions necessary
23 to capitalize the Shen 3 well costs were satisfied
24 before Anadarko even started drilling Shen 3;
25 correct? 3:21PM

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1 A Yes. 3:21PM

2 Q And under this logic, Anadarko could have
3 drilled ten more dry holes in a row and continued to
4 capitalize each well if the company was making
5 sufficient progress assessing the entire Shenandoah 3:21PM
6 project; correct?

7 A Subject to the other conditions on continued
8 capitalization of suspended well costs, yes.

9 Q And this is all because Shen 1, an
10 unconnected well more than 2 miles away from Shen 3, 3:21PM
11 identified some level of reserves; is that right?

12 A That's partially right. That's not the only
13 reason.

14 Q What is the other reason?

15 A Well, when Shen 1 was drilled, they already 3:21PM
16 had an estimate or information from G&G analysis that
17 indicated what the scope of the field might be, what
18 the -- here we go, areal extent, A-R-E-A-L, how big
19 was the field in area.

20 And because they had at that time an 3:22PM
21 understanding of the geological nature of the
22 potential reserves, they were able to form estimates
23 of the size of that field and estimates of the
24 amount of oil and gas in the field.

25 All of those considerations would have 3:22PM

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1 the costs of creating those inbound cash flows, 4:15PM
2 discount that at 10 percent and divide by the
3 investment that you make.

4 Q Do you discount the investment?

5 A It depends on when the investment occurs. 4:15PM
6 So that would have been considered in the profit
7 calculation as well in the timing. But the investment
8 is -- I'll stop there.

9 Q In the column to the left, do you see "Net
10 at NPV10"? 4:15PM

11 A Yes.

12 Q What does "NPV10" mean in this document?

13 A NPV is net present value, so this is net
14 present value of the cash flows under the assumptions
15 in the various rows here discounted at 10 percent. 4:15PM

16 Q And how is net present value calculated in
17 this document?

18 A I don't know that it says in this document,
19 but net present value is a very standard measure of
20 cash flows that occur at different points in time. 4:16PM

21 So, for example, a dollar today could be
22 compared with a dollar a year from now but that
23 dollar a year from now can't be added directly. You
24 have to discount it at 10 percent.

25 So you would divide one dollar by 1.10 in 4:16PM

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1 the denominator and then you can add the two numbers 4:16PM
2 together.

3 Q Do you see that the PIR10 figures vary
4 depending on the contingency?

5 A Yes. 4:16PM

6 Q Why is that?

7 A Well, the NPV numbers vary. And so as they
8 vary, the PIR numbers will vary as well.

9 Q Why do the NPV10 values vary?

10 A Well, the modeling that is preparing these 4:17PM
11 estimates is forecasting future cash flows that would
12 include things like how quickly are you pumping oil
13 out of this thing, how much is the cost for the
14 lifting cost, all kinds of things that go into the
15 calculations of cash flows in the future. 4:17PM

16 And that's what those various rows are
17 talking about that we look -- zero contingency,
18 facility only contingency. They are making
19 different assumptions here about how they are
20 modeling these future cash flows. 4:18PM

21 Q The zero contingency, what assumptions are
22 made there?

23 A I don't know.

24 Q Facility only contingency, what
25 assumptions are made there? 4:18PM

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1 A I don't know. 4:18PM

2 Q Recommended contingency, what assumptions
3 are made there?

4 A I don't know.

5 Q Recommended contingency 20,000 well rates, 4:18PM
6 what assumptions are made there?

7 A I don't know.

8 Q Recommended contingency 20,000 well rates
9 optimized, what assumptions are made there?

10 A Again, I don't know. 4:18PM

11 Q What is a risk mean?

12 A I'm sorry, a risk mean?

13 Q Do you see the words "risk mean"?

14 A Oh, risk mean, yes.

15 Q What is that? 4:18PM

16 A Somehow they are taking into consideration
17 certain risks. I don't know what they are. Then
18 depending on whether they are considering risks or
19 not, they get two different rows in their calculation.

20 Q Can you tell me a single risk that they 4:19PM
21 are taking into account?

22 A I don't know specifically what they are
23 considering to be risks. I anticipate that there are
24 multiple risks that they are considering.

25 Q Just tell me one of those multiple risks. 4:19PM

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1 A Well, you have to make assumptions in 4:19PM
2 estimating future cash flows that if you find, say, a
3 million barrels of oil in a reservoir, not all of that
4 million barrels of oil can be extracted economically.

5 So one of the things you have to do is look at the 4:19PM
6 oil -- the sands to try to figure out how much oil you
7 can actually get out.

8 That in turn depends on a number of
9 factors as I understand them. For example, are you
10 going to use a water injection well to try to push 4:19PM
11 more oil out into the wellbores for production? And
12 how will it actually work when you do that?

13 So I don't know what all the risks are.
14 I've gained an appreciation that there is an awful
15 lot of risk potentially in oil exploration and 4:20PM
16 production.

17 But I don't know specifically what they
18 are referring to in talking about these different
19 contingencies or in the risked or unrisked models
20 that they estimate. 4:20PM

21 Q Do you see P little C over on the far
22 right column headed -- off of the far right column?

23 A Yes.

24 Q You understand what that acronym stands
25 for; right? 4:20PM

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1 A Yes. 4:20PM

2 Q What does it mean?

3 A It's probability of commerciality.

4 Q Did you know that before you began this

5 engagement? 4:20PM

6 A I don't believe so, no. I don't know that I
7 ever saw the term before I saw this -- before this
8 engagement.

9 Q How is probability of commerciality
10 calculated? 4:21PM

11 A I don't know specifically what they did.

12 Q Tell me generally what they did.

13 A I think overall they have a model that says
14 is it the case that we will create a field here that
15 we can take to FID and what is the probability that 4:21PM
16 we'll actually get to FID. So that's the probability
17 of commerciality.

18 Q So tell me the formula to calculate that.

19 A I don't know the formula to calculate that.

20 Q Did you ever know the formula to calculate 4:21PM
21 it?

22 A No. Again, I understand the concept, but
23 how specifically they did that, I don't know. My
24 anticipation would be that it involves a number of
25 factors. But again, I don't know that. 4:22PM

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1 Q That's just an assumption you're making; 4:22PM
2 right?

3 A Yes.

4 Q Do you see how the net present value 10
5 varies in the different rows? 4:22PM

6 A Yes.

7 Q For example, in the first row, it's 237
8 and 283; right?

9 A Yes.

10 Q And the PIR10 is .28 and .30 in the zero 4:22PM
11 contingency row; right?

12 A Yes.

13 Q And the probability of commerciality is
14 88.2 and 100 percent; right?

15 A Yes. 4:22PM

16 Q Let's go ahead and look at the recommended
17 contingency 20,000 well rates. It's 191 and 232;
18 right?

19 A I'm sorry. Hold on.

20 Q Net present value 10? It's the -- 4:22PM

21 A So not the optimized one, but just the
22 recommended contingency for 20K well rates, 191, 232.
23 Am I reading that correctly?

24 Q Right. Those are different from the net
25 present value 10 reserve contingency, aren't they? 4:23PM

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1 A Yes. 4:23PM

2 Q And likewise, the recommended contingency
3 20,000 well rates is .20 and .22; correct?

4 A Yes.

5 Q And that's different from the PIR10 zero 4:23PM
6 contingency; correct?

7 A Yes.

8 Q The probability of commerciality for the
9 zero contingency is 88.2 and 100 percent; right?

10 A Yes. 4:23PM

11 Q And the probability of commerciality for
12 the recommended contingency 20,000 well rates is
13 88.2 and 100 percent; right?

14 A Yes.

15 Q In fact, the probability of commerciality 4:23PM
16 for every risked mean is 100 percent; right?

17 A Every unrisked mean, yes.

18 Q I'm sorry, every unrisked mean is
19 100 percent; right?

20 A Yes. 4:24PM

21 Q The probability of commerciality for every
22 risked mean is 88.2; right?

23 A Yes.

24 Q Why did the -- why does the probability of
25 commerciality stay unchanged when the net present 4:24PM

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1 value 10 and the PIR10 changed? 4:24PM

2 A I don't know.

3 Q Did you do anything to evaluate how the
4 probability of commerciality figure was calculated?

5 A I tried to find more detail and was 4:24PM
6 unsuccessful in finding more detail.

7 Q Did you reach out to anybody at the
8 company and ask them?

9 A No.

10 Q Why not? 4:25PM

11 A Because I am an independent expert, I'm not
12 going to speak to somebody at Anadarko.

13 Q Do you know whether the probability of
14 commerciality figure is based on an underlying
15 economic resource probability? 4:25PM

16 A I don't know that. But I anticipate that
17 that's what it is intended to convey, yes.

18 Q Do you know whether the probability of
19 commerciality figure is based on engineering
20 assumptions? 4:25PM

21 A I anticipate that it is.

22 Q Do you know that, sir, or are you just
23 assuming it is?

24 A Well, in order to project cash flows in the
25 future, you have to project the amount of oil that's 4:25PM

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1 going to be produced from the wells. 4:25PM

2 I presume that that is information that
3 comes from the engineers. It would not come from
4 the accountants.

5 Q Do you know whether the underlying 4:26PM
6 engineering assumptions were realistic?

7 A I don't know; but, again, to the extent that
8 Anadarko personnel are using this chart to make
9 decisions, I cannot imagine why they would not be
10 realistic if Anadarko professionals were using them to 4:26PM
11 make decisions.

12 So I assumed -- I'm sorry.

13 So I assume that these are their best
14 estimates when they develop these.

15 Q You understand that this is a fraud case; 4:26PM
16 right, sir?

17 A No.

18 Q You don't understand that plaintiffs are
19 alleging fraud in this case?

20 A I've been asked to opine on the accounting. 4:26PM
21 I don't know what the legal issues are because they
22 don't relate to the accounting determinations I've
23 been asked to make.

24 Q Do you know whether the underlying
25 economic assumptions were realistic that were used 4:27PM

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1 I, LYNNE M. LEDANOIS, a Certified
2 Shorthand Reporter of the State of California, do
3 hereby certify:

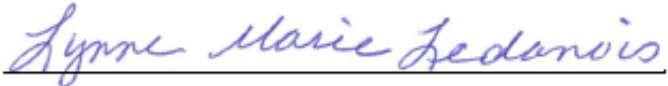
4 That the foregoing proceedings were taken
5 before me at the time and place herein set forth;
6 that any witnesses in the foregoing proceedings,
7 prior to testifying, were duly sworn; that a record
8 of the proceedings was made by me using machine
9 shorthand which was thereafter transcribed under my
10 direction; that the foregoing transcript is a true
11 record of the testimony given.

12 Further, that if the foregoing pertains to
13 the original transcript of a deposition in a Federal
14 Case, before completion of the proceedings, review
15 of the transcript [] was [x] was not requested.

16 I further certify I am neither financially
17 interested in the action nor a relative or employee
18 of any attorney or party to this action.

19 IN WITNESS WHEREOF, I have this date
20 subscribed my name.

21
22 Dated: March 13, 2023

23
24 

LYNNE MARIE LEDANOIS

25 CSR No. 6811